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EFFECTS OF THE EMERGENCY FOOD ASSISTANCE PROGRAM

ON DISPLACEMENT OF COMMERCIAL SALES -

1991 REPORT TO CONGRESS

United States Department of Agriculture

Food and Nutrition Service

Office of Analysis and Evaluation

United States
Department of
Agriculture



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INTRODUCTION

Every year the Secretary of the United States Department of Agriculture must report to Congress on the degree of displacement of commercial market sales due to commodity donations through the Emergency Food Assistance Program (TEFAP). The market displacement examination ensures that donations are not hindering USDA price support and agriculture stabilization efforts.

The term displacement, as used in this and previous reports, refers to the reduction in the normal sale of a product to households due to the receipt of donations of a like or substitute product. As defined, displacement is not a function of total market trends but of individual household behavior.

USDA found that donations of butter displaced commercial purchases of margarine. Even though there is a pound-for-pound displacement rate for butter, butter donation levels are acceptable because of the small size of the donations relative to the retail market. In 1990, 64 million pounds of butter worth \$87 million were distributed through TEFAP. Butter donations represent about 13 percent of the butter market but only 3 percent of the margarine market. In prior years cheese donations had caused significant commercial displacement, however, because cheese was not donated during 1990 displacement was not a concern.

The distribution levels of other TEFAP commodities, canned green beans, peanut butter, flour, cornmeal, honey, raisins and canned meats were not sufficiently large relative to the size of the retail market to permit valid estimates of displacement. The expected effect on commercial markets is small.

TEFAP donations of flour and cornmeal should be considered jointly since they serve as substitutes. Cornmeal donations represent approximately 11 percent of the combined cornmeal and flour retail market. However, the available substitutes extend to a wide variety of items that use flour and cornmeal as inputs to processed food production. The items extend from flour used in pizza and baked dessert items to cornmeal used to make tortillas and muffins as well as other goods. As a result, flour and cornmeal represent a very small (but not quantifiable) percentage of their respective retail markets. No displacement effects are estimated because they, in turn, represent an even smaller share of the total market. The same issue occurs with honey. While TEFAP donations of honey represent 36 percent of the retail volume of honey sold in the United States, granulated sugar is a widely used substitute for honey. Honey is a very small (but not quantifiable) percentage of the granulated sugar market, not even considering the sugar used in processed goods. However it should be noted that TEFAP recipients are likely to purchase lower amounts of the donated commodities through retail markets because they have lower disposable incomes.

When examining the donation levels relative to the retail market, it is important to note that retail markets include only those commodities that are sold in commercial outlets (grocery stores). It does not include commodities used in processed goods.

The Food and Nutrition Service prepared this report in cooperation with the Economic Research Service. The report includes a summary of previous findings and an update on the status of TEFAP.

REVIEW OF PREVIOUS ESTIMATES

Since the first report to Congress in 1986, estimated displacement rates for butter and cheese have remained fairly constant. Using different estimation methods, displacement estimates from cheese ranged from 27 percent to 48 percent in 1986. As a result of the discrepancy, USDA derived a mid-range estimate of 35 percent for process cheese using data from a 1986 recipient household survey. The household survey was used because it provided the best empirical findings of any of the models available. However, since the survey was a one-time data collection an update was impossible. Therefore, USDA in 1987 used an econometric model using national commercial disappearance. The model estimated the displacement rate to be between 45 percent and 48 percent for process cheese. Because cheese was not distributed in 1988-1990, the agency did not update the model.

For the same time period, the model developed to estimate the effect of butter donations on margarine sales resulted in a pound-for-pound displacement. The same results occurred in the updated model for 1987 to 1989.

Because the findings have been so consistent and the level of donations have not changed, in 1990 USDA assumed the displacement rates to be constant.

PROGRAM STATUS

The Hunger Prevention Act of 1988 (P.L. 100-435) required that \$120 million worth of commodity purchases be made for distribution through TEFAP in 1989 and 1990. In 1990 USDA purchased beans, peanut butter, prunes, and pork. In addition, butter, cornmeal, flour, honey and wheat were also available. Process cheese and nonfat dry milk have been unavailable since April 1988.

For commodities other than process cheese and butter, USDA does not have enough information to estimate displacement rates. Instead, Appendix A provides information about TEFAP commodity donations as a percent of their retail markets. Caution should be used when citing these statistics since information on total markets (including the retail and whole-sale markets) was unavailable.

SUMMARY

Although there was some process cheese and non-fat dry milk, displacement of commercial cheese sales is not included in this report because cheese was not distributed through TEFAP in FY 1990. USDA assumes the continuation of a pound-for-pound displacement of butter over margarine in FY 1990 based on previous estimates derived from econometric models using national commercial disappearance data.

Commodity	Estimated Total Value	TEFAP Purchase	Estimated Retail Value
	(million lbs.)	(million lbs.)	
Butter	232.4	24.2	2.56
Margarine	275.7	7.2	.04
Commercial cheese	275.7	20.8	.02
Canned fresh beans	274.1	24.7	.02
Butter	457.4	21.7	.13
Margarine	2,227.1	21.7	.20
Wheat	228.2	45.1	.21
Flour	2,424.4	34.2	.29
Wheat	79.2	22.1	.06
Canned beans	222.4	22.2	.05

1. Calendar year 1990

2. Except for canned beans, all retail estimates were obtained from A.C. Nielsen Co. Annual Food Reports.

3. Fiscal year 1990

4. Projected value minus data for 1987-1989.

5. Adopted from USDA-ERS, "Food Products Covered Under Federal Acquisition, 1987." A one percent growth rate in retail values from 1989 was assumed.

Appendix A

Total and Relative Market Size for Commodities Purchased by TEFAP

Commodity	Estimated Retail Volume 1,2	TEFAP Purchases 3	TEFAP purchases as a proportion of estimated retail Volume
	(million lbs.)	(million lbs.)	
Peanut butter	639.4	54.3	0.08
Raisins	175.7	7.9	.04
Canned Beans	1,275.7	23.0	.02
Canned Green Beans	874.1	14.2	.02
Butter	495.6	63.7	.13
Margarine	2,127.1	63.7 (butter)	.03
Cornmeal	236.6p	49.8	.21
Flour	1,486.4	134.2	.09
Honey	79.3	28.6	.36
Canned Pork	345.4	30.8	.09

1. Calendar year 1990

2. Except for canned pork, all retail estimates were obtained from A.C. Nielsen Co. Annual Trend Reports.

3. Fiscal year 1990

p. Projected using Nielsen data for 1987-1989.

4. Adapted from USDA-FSIS, "meat Products Canned Under Federal Inspection, 1987." A one percent growth rate in retail volume from 1988 was assumed.

Proposed Distribution List
Annual TEFAP Displacement Update

Senate

A. Committee on Agriculture, Nutrition and Forestry

Patrick J. Leahy, Chairman
Richard G. Lugar, Ranking Minority Member

B. Subcommittee on Nutrition and Forestry

Tom Harkin, Chairman
Mitch McConnell, Ranking Minority Member

Wyche Fowler, Jr.
Bob Kerrey
David H. Pryor
Robert Dole
Jesse Helms

House

A. Committee on Agriculture

E. (Kika) de la Garza, Chairman
E. Thomas Coleman, Ranking Minority Member

B. Subcommittee on Domestic Marketing, Consumer Relations and Nutrition

Robin M. Tallon, Chairman
Tom Lewis, Ranking Minority Member

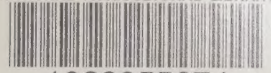
USDA

FNS Regional Administrators
Stephen Dewhurst (OBPA)
Cameron Woods (OPA)
Ronald Hill (OGC)

Other

Sarah Brentlinger (OMB)
Sandy Clark (CBO)
Matthew Haskins (OMB)
Julie Issacs (CBO)
Belva Jones (Margarine Institute)
Joe Richardson (CRS)

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